

Encouraging Signs of Economic Recovery are on the Horizon, but Uncertainty Remains

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With the collapse in commodities prices during the fall of 2014 giving way to a rather prolonged and pronounced economic downturn throughout 2015 and 2016, I'm happy to report that there is evidence that seems to suggest an economic recovery is beginning to take shape late in 2017, with more modest growth being forecast by the Conference Board of Canada for 2018.

Indications that the recent slowdown in business activity is now firmly behind us and that an upswing in the business cycle is underway is based on the following observations:

- An increase in business confidence among Regina-area executives based on the findings of a Q3 2017 Economic Development Regina (EDR) survey
- Rebounding commodity prices, particularly in the oil and gas and potash mining sectors, along with a partial recovery in related employment
- Robust growth as of late in the manufacturing and processing (M&P) and agri-value added sectors, as demonstrated by sales and employment figures
- Strong motor vehicle sales, particularly in the trucks/vans/SUVs/commercial vehicle segment of the market
- A substantial jump in the value of commercial/industrial building permits over the past year

Optimism among business leaders and executives in the Queen City appears to be soaring as we move into 2018. According to the Regina Executive Leadership Outlook September quarterly report published by EDR in partnership with Praxis Consulting, the Executive Confidence Index (ECI) score rose 24 points to 2.55 out of a total of 3.00, which was the highest ECI score to-date since Q1 2016.

Respondent optimism was primarily driven by the fact that the improvement in economic conditions both at home and abroad will result in increased sales and profits, with about 72% of those surveyed stating that they expect their business profitability to increase over the next year.

While the Saskatoon Regional Economic Development Authority (SREDA) recently evaluated the Saskatoon region's economic performance for Q3 2017 as a C+, data tables contained in an accompanying report at least seem to suggest that business confidence is starting to return to the province's largest municipality after being clobbered during the 2015-2016 economic downturn.

The Saskatoon Census Metropolitan Area's real GDP for Q3 2017 increased by 4% compared to the same period last year, with notable gains made in wholesale trade. Also

encouraging is the number of business licenses issued within the region increased by almost 30% for Q3 2017 compared to the same period one year ago.

Alan Arcand of the Conference Board of Canada concluded in a recent seminar on the economic outlook for Regina and Saskatoon in 2017-18 that crude oil prices have stabilized and are beginning to trend upward once again. Moreover, Petroleum Labour Market Information (PetroLMI) reported moderate increases in sector activity for Q1 2017. If trends continue, PetroLMI is anticipating worker shortages in specialized industry sub-sectors like oil and gas well servicing, as the available pool of labour has shrunk since oil price shocks began back in the fall of 2014.

With respect to Saskatchewan's oil and gas exports, Doug Elliott in his August 2017 edition of Sask Trends Monitor (STM), confirms that the ongoing recovery in the value of Saskatchewan's crude oil exports contributed to a roughly 23% increase in the value of exports overall for the first seven months of 2017 compared to the same period one year ago. This information also coincides with the Petroleum Services Association of Canada's forecast earlier in the year predicting a sizable increase in oil and gas activity for 2017 that has largely materialized.

In addition, the manufacturing and processing sector continues to post strong numbers in terms of both sales and employment figures. STM reports that sales for all manufacturing groups has increased almost 14% year to date with much of the growth centered around non-durable goods as opposed to durable goods. Perhaps as the economy continues to recover, the durable goods portion of sales will continue to pick up. The manufacturing sector continues to experience noticeable growth in employment by industry group, up nearly 11% year to date for 2017.

Despite weaker consumer spending in recent months, sales of motor vehicles have been fairly strong. The August 2017 edition of STM is showing that the number of units sold for all motor vehicles year to date for 2017 is up 11%. Most of the growth in unit sales has come from the truck/van/SUV/commercial vehicle segment of the market and this segment has largely made up for the slack in sales currently being experienced by the passenger car segment.

Saskatchewan has witnessed double-digit growth in the value of buildings permits for industrial and commercial projects. When taken together, the value of building permits for industrial and commercial developments increased by 48% year to date for 2017 and has increased 88% from the same period last year based on STM's most recent figures. Growth in the value of building permits for residential builds has been considerably more modest, while growth in the value of permits for institutional and government builds has been negative year to date. This isn't surprising given the priorities outlined in the province's 2017 budget. Identifying changes in the value of building permits is important as this can indicate positive or negative trends taking place in the construction sector and the economy overall.

While there is data out there to suggest things are beginning to look up for the private sector in Saskatchewan, there are still some challenges on the horizon. Data from STM also suggests that while the number of unemployed persons in the province has levelled off, the overall labour market is still relatively flat and anemic.

This isn't particularly surprising given that labour markets typically lag in the initial

stages of an economic upswing. Simply put, the boost in optimism enjoyed by leaders in the business community as of late hasn't flowed directly back into labour markets in the form of increased demand for new, long-term hires yet, but that could change come 2018-2019 if increased economic activity brings with it upward pressure on the demand for workers.

The latest news of an economic recovery beginning to take hold in the province is encouraging to say the least. With that said, it's also important to keep in mind that the current upswing in optimism is still in its embryonic stages and there are a number of different factors at play that could serve to undermine the province's fragile economic recovery.

The words nervous and uncertain have been frequently used by business leaders in Saskatchewan to summarize the current economic climate as of late. This is a rather apt description considering the ongoing negotiations surrounding NAFTA, the proposed changes to business taxation drafted by the Federal Government this past summer, the possibility of carbon pricing in Saskatchewan's future, and the unease being expressed by industry over major changes to Canada's regulatory processes for environmental assessments and energy transmission.

Given the precarious economic recovery currently underway throughout much of the province, it is imperative that government officials design policies that serve to reduce business uncertainty and promote industry competitiveness.

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